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EUROPE

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3. GERMANY: Demonstrations cost western powers prestige--US Ambassador Murphy observes that from the demonstrations in the Berlin Assembly two facts have become apparent: (a) the fixed Soviet intention to destroy the present city government; and (b) the inability of the city government to continue functioning at its present location and on a city-wide basis. Murphy remarks that the ineffectiveness of the non-Communist Assembly leaders in handling the situation has lost them prestige. He believes, however, that the prestige of the western powers may have been more importantly affected by toleration of disorderly and illegal interruption of Berlin's city government during the course of the present four-power negotiations in Berlin.

(CIA Comment: CIA agrees with Murphy's estimate of Soviet intentions in Berlin and believes that the Kremlin may hope to confront the western powers with a fait accompli in Berlin before the current East-West discussions are concluded.)

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4. FRANCE: Serious strikes unlikely--US Embassy Paris transmits the views of qualified labor observers that, in the absence of a large Communist strike fund, the Communists will not be able to promote strikes similar in proportions to those of November and December 1947. The observers stressed the fact that despite the dissatisfaction of workers over the wage-price situation, they are reluctant to engage in more than "warning strikes" limited to a few hours.

(CIA Comment: CIA concurs in this estimate of the current labor situation in France.)

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5. YUGOSLAVIA: Possible Tito-Subasic rapprochement--US Consulate Zagreb has learned [ ] that Marshal Tito recently conferred in Zagreb with Ivan Subasic (former Prime Minister of the Royal Yugoslav Government in Exile and leader

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of the Croatian Peasant Party). [ ] Tito refused Subasic's request that the Croatian Peasant Party be legalized but insisted that Subasic enter the Tito Government immediately.

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(CIA Comment: The participation of Subasic in the Government, even on Tito's terms, would substantially improve the regime's position with the Croatian peasants and might foreshadow a rapprochement with other Yugoslav peasant groups. Through such a rapprochement, Tito would materially strengthen his internal position but would render even more remote his chances for a compromise with Moscow.)

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6. CHINA: Possibility of Chinese-Soviet understanding --US Embassy Nanking believes that Chinese-Soviet conversations now in progress could develop in the predictable future into a new general understanding between China and the USSR. The Embassy reports that high Chinese officials are largely convinced of the inevitability of a US-Soviet war and that an increasing number of Chinese hope to see China remain neutral in such a conflict. The Embassy believes that in order to obtain Chinese neutrality in the event of war the USSR might make fairly liberal concessions, including pressure to end the civil war on terms acceptable to the National Government. The Embassy believes it probable that most Chinese would look with less disfavor on an alliance with the USSR than with any other nation.

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